



Benchmarking Is Not A Cost Reduction Strategy

July 21, 2014 | Liz Kirk

Healthcare providers are facing threats to net revenue like never before. The pressure to reduce the cost of providing care has never been greater, prompting most healthcare organizations to embark on massive cost reduction initiatives.

Unfortunately, the first tactic for many of these cost reduction initiatives continues to be one “tried and true” approach which is often ineffective—operational benchmarking – which entails comparing department level efficiency and cost metrics to peer organizations.

The response of many would be ‘operational benchmarking is ineffective? No way. Everyone is doing it so it must work.’

To understand why benchmarking is not necessarily the answer, consider the following:

- All of the fees that you’ve paid to benchmarking organizations
- All of the hours that you’ve spent extracting and sending data
- All of the time that you’ve spent trying to understand why your organization looks comparatively unfavorable
- All of the time spent arguing over the validity of the benchmark
- All of the time spent reaching out to “better performing” organizations only to find that they are structured completely differently
- All the data you generated that you never used

The key here is that very often this is money and time spent NOT taking action and NOT driving cost out.

In an era of nine digit cost reduction targets, benchmarking costs money, which providers are actually trying to save not spend. The shortcomings of operational benchmarking are critical to understand:

- It consumes people’s time, which is also very limited and costly.
- It diverts the team’s focus to excruciatingly detailed data analysis, when what cost reduction initiatives really require is taking action.
- The entire concept of benchmarking promotes sameness amongst organizations when what we really need in healthcare, now more than ever, are innovations, breakthroughs, and new ways to fix what’s broken.

However, there are some examples when benchmarking has the potential to drive meaningful action:

- Benchmarking wages, benefits or supply acquisition cost with similar organizations in similar geographic settings. Such comparisons promote action because the ambiguity around the metric is minimal.
- Benchmarking outputs of standard processes with universal data definitions, such as Charge Capture rate. Similarly, this type of benchmarking drives organizations to action because the rules of the game are known. To improve the metric, an organization easily, and with little effort or digging, identifies what action to take.
- Benchmarking high level performance metrics such as operating margin, and FTEs per Adjusted Occupied Bed. These metrics are not perfect, but they provide a starting point. However, providers should always avoid the pitfall of thinking “We look good compared to our peers, so there isn’t any opportunity to improve this metric.” That attitude is dangerous because even when looking favorable compared to peers, using the tactics below will most likely yield significant savings.

But, rather than starting with benchmarking as the source for identifying savings, why not start in a different place that will lead to action quicker, promote innovation and best practice sharing within your organization, and actually address long-standing issues more effectively in both the short and long-term?

Consider the following approach that leans more heavily on internal benchmarking to drive change:

- **Quantify internal variation** – Compare cost drivers such as length of stay and implant selection among physicians for similar types of cases. There is savings in reducing variation.
- **Dive into operations, ask hard questions, and observe** – Are staff members productive for the whole time they are at work? Are highly paid people doing work that a much lower paid person could easily do? Could manual processes be automated?
- **Combine multiple sources of data to tell a compelling story** – Often analysts are isolated and/or don’t have the time nor operational insights to produce impactful analyses that will inspire an operational leader to actually take action. The power of data is magnified when it is multi-dimensional and visual, which is not usually part of a benchmarking exercise.
- **Identify broken processes and actually fix them** – Broken processes are very expensive. Re-thinking the process, roles involved and technology will likely result in significant cost savings.

An over-reliance on external benchmarking prevents many providers across the country from taking much-needed action and realizing financial benefits. For real, sustainable cost savings, organizations must be willing to look deeper—into operations, how care is delivered, and how work is accomplished.

Tools that provide real-time actionable data and enable robust analyses with visceral outputs are infinitely more valuable than all of the time and money spent on operational benchmarking.

Since all providers are looking to improve their bottom line, they need to move beyond benchmarking and look inside in order to drive meaningful results—and drive out cost.